Establishment of a Central Land Mortgage Bank at Bangalore.

READ—

Government Order No. C. 1-50—Sany. 17-26-1, dated the 11th October 1926, passing orders on the recommendations of the Malnad Improvement Committee of 1925.

2. Government Order No. G. 10603-4—Sany. 30-26-5, dated the 30th March. 1927, sanctioning the appointment of a Committee for considering the question of establishing a Central Land Mortgage Bank at Bangalore, and the assistance to be given to it by Government.

3. Letter No. G. 3436, dated the 24th September 1927, from the Secretary, Land Mortgage Bank Committee, enclosing a note embodying the opinion of the Committee on the question.

ORDER No. G. 11438-44—SANY. 30-26-7, DATED 10TH APRIL 1928.

The problem of agricultural indebtedness, especially in the Malnad parts of the State, has been engaging the attention of Government for some time past. The Malnad Improvement Committee of 1925, recommended the establishment of Land Mortgage Banks in the Malnad as the most promising means of improving the economic conditions of the area in question. In passing orders on the report of the Committee, Government indicated their intention of establishing a Land Mortgage Bank in each of the Malnad Districts of Shimoga, Kadur and Hassan. It was subsequently brought to the notice of Government that a Central Bank at Bangalore with local branches, would better meet the needs of land mortgage credit and would ensure sound management and adequacy of funds.

2. In March 1927, Government appointed a Committee consisting of the marginally noted gentlemen as members, with Rajasabhabhushana K. Chandy, First Member of Council, as Chairman, to examine this suggestion. The Committee were also requested to consider the nature and extent of the assistance to be given by Government to the Land Mortgage Institution.

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3. The Committee have submitted their considered views on these questions. They are of opinion that it is desirable to entrust the work of providing long term credit to a Central Institution having jurisdiction over the whole State. They consider that, for the present, the operations of the Bank may be confined to one taluk in each of the Malnad Districts and to one taluk in a Maidan District, but that, later on, the Bank may extend its operations to other parts of the State as far as its funds may permit. The Committee recommend that instead of forming an independent institution for Land Mortgage work, the Mysore Provincial Co-operative Bank may be entrusted with the work. Lastly the Committee have indicated the main particulars in respect of which Government assistance may be given to the institution.

4. Government are of opinion that the Land Mortgage Bank should be a Provincial Institution independent of the Provincial or any other Co-operative Banking Institution. There is, however, no objection to financial relations being established between the Land Mortgage Bank on the one side and the Provincial Co-operative Bank or the Mysore Bank on the other. In fact, Government deem it very desirable that such relations should be established and they propose to consider the matter further in consultation with the authorities of these institutions. The operations of the Bank, will, as suggested by the Committee, be limited for the present to the Sagar Taluk in the Shimoga District, Koppa Taluk in the Kadur District, Manjarabad Taluk in the Hassan District, and Tumkur Taluk in the Tumkur District.

5. The Bank will have a share capital of five lakhs of rupees and will be permitted to issue debentures up to rupees twenty lakhs. Government will guarantee interest on all the debentures at a rate not exceeding five per cent. No debentures will be issued by the Bank without the previous sanction of Government. Government will if necessary, be prepared to invest in the Bank an aggregate sum of five lakhs of rupees. This investment will for the first two years be at the rate of one lakh of rupees and the balance of three lakhs will be invested in amounts equivalent to the amount raised by the Bank from the public in any particular year.

6. The work of the Bank in local areas will be carried on through local Land Mortgage Institutions to be specially formed for the purpose of serving as local agents of the Bank. It will be their function to receive loan applications in the first instance and to examine the adequacy of the securities offered before forwarding the applications to the Bank. These local associations will be permitted to give short term loans out of such funds as they may possess or as may be placed at their disposal by the Land Mortgage Bank from time to time, for this purpose. In exceptional cases, where the formation of a local institution is difficult, the Bank may deal with individual borrowers provided the amount of the loan applied for is not less than Rs. 2,000.

7. The duties of general supervision and control over the operations of the Bank will be entrusted to an officer called the Director of Land Mortgage Banks. This Officer should take the necessary preliminary action for constituting the Bank.

8. The concessions now sanctioned to Co-operative Societies in the matter of exemption from payment of Stamp Duty, Registration and other fees, will be extended to the documents executed by or on behalf of the Bank.

9. The Bye-laws of the proposed Land Mortgage Bank sent by the Committee are approved by Government with certain changes and are annexed to this Order, The main point in respect of which the Bye-laws have been changed is in the matter of the revaluation of the property mortgaged so as to permit, whenever necessary. of additional security being taken or mortgaged security in excess of what is needed being released. It is also desirable to give the Bank the power of revaluation at any time if it thinks that the security on which a loan is made has deteriorated in value or is otherwise unsatisfactory.

10. Government observe that amendments to certain legal enactments will be necessary before the Bye-laws could be brought into operation. They are pleased to direct that necessary action should be taken in this behalf without delay in the Legislative Department.

11. Separate orders will issue about the appointment of the Director of Land Mortgage Banks.

12. Government desire to convey their thanks to the Chairman and Members of the Land Mortgage Bank Committee for the care they have bestowed upon the consideration of the questions referred to them and for the valuable suggestions which they have furnished.

R. RANGA RAO,
General Secretary to Government.

ANNEXURE.

BYE-LAWS FOR THE MYSORE LAND MORTGAGE BANK.

1. This Bank shall be called the Mysore Land Mortgage Bank.
2. The Office of the Bank shall be situated at Bangalore.
3. The object of the Bank is to grant loans to *bona fide* land owning members.
4. Loans may be given by the Bank only for the following purposes:—
   (*a*) Redemption of mortgage.
   (*b*) Improvement of land or of methods of cultivation.
   (*c*) Current agricultural operations.
5. The liability of a member of the Bank shall be limited to the value of the shares held by him in the Bank.
6. There shall be 10,000 shares of the value of Rs. 50 each.
7. Membership of the Bank is open to every subject of His Highness the Maharaja who has attained the age of majority and is legally capable of entering into a contract, to several such persons jointly and to every institution formed for long term credit and registered under such laws, if any, as may be framed for the purpose. Notwithstanding anything contained above, nominees or legal representatives of deceased members may be admitted as members although such nominees or legal representatives are minors.

8. Every member of the Bank should take at least one share.

9. Shares are not withdrawable or transferable except with the sanction of the Bank provided that no member will be permitted to withdraw his shares within ten years of the date on which such shares are taken by him and provided also that not more than ten per cent of the aggregate share capital of the Bank at the beginning of a year is allowed to be withdrawn in any year.

10. The funds of the Bank shall include share capital, loans raised by debentures, deposits, *grants* and *other miscellaneous items*; but at no time shall the liabilities of the Bank exceed ten times the subscribed share capital *plus* reserve fund.

11. The Board of Directors may receive deposits at their discretion either from members or others and it shall be open to them to settle the terms on which deposits shall be taken provided that the interest on such deposits shall not, in any case, exceed 6½ per cent per annum and provided also that no deposit shall be received for a period of less than two years.

12. Loans shall ordinarily be granted through local Land Mortgage Institutions specially formed for the purpose. In exceptional cases, the Bank may deal with individual borrowers. No loan shall be granted for an amount below Rs. 500 nor above Rs. 5,000 ordinarily provided that, where a loan is granted to a local Land Mortgage Institution, the amount of the loan may be Rs. 30,000. In the case of individuals borrowing direct from the Bank, the size of the loan shall not be less than Rs. 2,000.

13. Loans granted by the Bank shall bear interest at rates fixed from time to time but not exceeding:—

(*a*) a maximum of 8 per cent per annum, in the case of long term loans, and
(*b*) a maximum of 12 per cent on short term loans.

14. Long term loans granted by the Bank shall be repayable in equal yearly instalments which shall be not less than 25 and not more than 30 and shall not be liable to be recalled except under conditions specified in Bye-laws 23 and 24. Nothing in this Bye-law shall be considered to preclude the borrower from repaying his loan wholly or in part at any earlier time.

15. Long term loans and the interest due thereon shall be discharged by a system of equated payments, but the borrower will be at liberty to pay larger sums according to his convenience.

16. Loans shall be granted by the Bank only on the mortgage of immovable property except in the case of short term loans which may on suitable security be granted for working expenses to members who have taken long term loans.

17. For the present, the lending operations of the Bank shall be confined to the taluks of Tumkur, Sagar, Koppa and Manjarabad.

18. The capital raised by debentures shall be invested on long term loans, short term loans, if any, being given out of shares and deposits.

19. Long term loans granted by the Bank shall not exceed 50 per cent of the value of the property which is mortgaged to the Bank on account of those loans, provided that in case the loan is to be applied for the improvement of land, the amount of loan may go up to 60 per cent.

20. The land mortgaged to the Bank as security under Bye-law 19 shall have no prior encumbrances, save the mortgage or mortgages to be redeemed by the loan given by the Bank. Further, it shall not be liable to any subsequent encumbrances either by way of further mortgages, sale, gift or otherwise to any one except the Bank and except with the previous sanction of the Board of Directors, and any encumbrance treated in contravention of this Bye-law shall be invalid.

21. The mortgage shall be without possession, subject to the condition that if the mortgagor fails to pay principal and interest according to his contract, the Bank shall be entitled to take possession of the land for such term not exceeding twenty-five years as the Board of Directors may consider equitable. During possession, the Bank may manage the property or cause the property to be managed on their behalf, and after deducting expenses, use the proceeds towards redemption of the debt.

22. The valuation of the properties offered as security for loans shall be made by the Bank in accordance with subsidiary rules to be framed in that behalf.

23. Loans are liable to be recalled:—

(i) if after the grant of a loan, the information obtained regarding the property, the charges thereon or the rights of disposal thereof, is found to be incorrect;

(ii) if a loan is utilised for a purpose different from that for which it was granted;

(iii) if the property on which it is secured has, in the opinion of the Bank, deteriorated in value and the borrower fails to furnish additional security to the satisfaction of the Bank;

(iv) if on the death of the borrower or in the case of joint debtors, on the death of any one of them, his legal representative does not consent to continue as a member;

(v) if for any other reason, the debtor or in the case of joint debtors, any one of them ceases to be a member; and

(vi) if the debtor commits default in the payment of any instalment on the due date.

24. If, in any case not expressly provided for above, the Board of Directors consider that a debt is in danger, they shall recall the loan with the approval of the Director of Land Mortgage Banks.

25. When a loan recalled by the Board of Directors is not repaid within three months from the date of recall, the Board shall apply for a foreclosure of the mortgage to the Director of Land Mortgage Banks who, after notice to the defaulting debtor and necessary enquiry, will have power to order such foreclosure. The Director may order distraint of movables in the case of short term loans. These orders shall have the same effect and shall be executed in the same manner as if passed by a competent Civil Court.

26. Subject to Bye-law 10 and subject to the condition that the total loan raised does not exceed 20 lakhs of rupees, the Bank may raise loans from time to time by the issue of debenture bonds bearing interest not exceeding five per cent per annum and liable to be redeemed within such period not exceeding 30 years as may be prescribed by the Bank.

27. Debenture bonds shall not be issued except with the previous sanction of the Government and they shall be in such form and contain such covenants and provisions as the Bank, may, with the previous sanction of Government, prescribe in this behalf.

28. The Bank shall draw for redemption by lot as many debenture bonds as its financial condition permits, or if the Bank deems it preferable, it may repurchase its bonds instead of drawing them by lot, provided that the Bank shall not redeem or repurchase any debenture bond issued by the said Bank within a period of ten years from the date of issue of the bond.

29. The Bank shall be at liberty to effect a reduction in the rate of interest payable on any series of debenture bonds provided that option is given to the holders of such bonds to accept payment in cash at par value.

30. Government shall have power at any time to order a revaluation of the properties mortgaged to the Bank in order to ensure that the properties so mortgaged have not deteriorated. When, as a result of such revaluation, the security is found inadequate, the Bank shall have power to demand additional security from the party responsible, and, in the event of the security being found to be in excess of what is required, the Bank may release a part of the security already taken.

31. The Government shall appoint a trustee whose duty shall be to see that the Bank fulfils its obligations to the debenture holders. For this purpose, the Bank shall transfer to the trustee its rights in the mortgages on the security of which debentures are issued. The trustee shall have power to require the Bank to credit to an account opened in his name, in such Bank as may be approved for the purpose by the Government, all recoveries made from members of the Bank under any of the mortgages whether through equated payments or on redemption or upon sale under any power of sale applicable thereto. He shall also have the following powers:—

(i) To invest or to require the Bank to invest the money at the credit of this account in his own name in any investment or deposit authorised by Government by rules or laws framed on that behalf, or in any other securities approved by the Director of Land Mortgage Banks and to vary such investments at his discretionh

(ii) to require the Bank to redeem any or all of the debentures according to the rules relating to redemption;

(iii) to determine the method of redeeming any debentures before the expiry of the term for which they were issued ; and

(iv) to proceed against the Bank or the mortgagors whose mortgage deeds have been transferred to him or against both, in case of default of payment of moneys due to the debenture holders.

The trustee can, at any time, be replaced by another trustee. A trustee so appointed shall, as the successor in interest of the trustee whom he replaces, inherit all his powers and rights.

32. The administration of the Bank shall be vested in the following:—

(*a*) Board of Directors;
(*b*) Board of Supervision; and
(*c*) The General Body of the Members of the Bank.

33. Subject to the general control of Government and of the Director of Land Mortgage Banks, the ultimate authority in all matters relating to the administration of the Bank shall be the general body of the members who shall meet from time to time and at least once a year to conduct the work of the Bank. The following among other matters shall be dealt with by the general body :—

(i) The election and removal of their representatives on the Board of Directors and the Board of Supervision;
(ii) The annual report due to the Director of Land Mortgage Banks;
(iii) The Director's annual audit order;
(iv) The amendment or repeal of any existing Bye-laws or the enactment of a new Bye-law;
(v) The expulsion of a member;
(vi) The consideration of any complaint which any individual member may prefer against the Board of Directors or the Board of Supervision.

34. A meeting of the general body of the members may be convened whenever necessary for the conduct of the business by the Board of Directors and shall be so convened by the Board of Directors at the request of fifteen or more members or at the instance of the Director of Land Mortgage Banks.

35. The members of the Board of Directors and of the Board of Supervision will consist of members of the Bank and representatives of Debenture Holders provided that the Government of His Highness the Maharaja of Mysore shall have the right to nominate one member to the Board of Supervision and one member to the Board of Directors, whether members of the Bank or representatives of Debenture-Holders or others.

36. The Board of Directors shall consist of 7 members one of whom shall be the President holding office for a period of two years. Of the 7 members of the Board, 4 shall be elected by the members, 2 will be representatives of Debenture Holders selected by Government and one nominated by Government. The first President as well as all the members of the first Board of Directors will be nominated by Government.

37. The Board of Supervision shall consist of the President of the Board of Directors and 4 members. Of these 4 members, one shall be elected by the members, 2 will be the representatives of the Debenture Holders, selected by Government, and one will be nominated by the Government of Mysore, all the members holding office for a period of two years. The first Board of Supervision shall be formed two years after the opening of the Land Mortgage Bank, till when, the Director will exercise the powers of the Board of Supervision.

38. The Board of Directors shall administer and conduct the affairs of the Bank, prepare and issue agreements, declarations, etc., represent the Bank by one of its members selected for that purpose at all legal proceedings. It shall also appoint, control, and dismiss officials like book-keepers, cashiers, clerks, local agents, etc.

39. The Board of Supervision shall have general control and supervision over the affairs of the Bank. In particular it will—

(i) cause the accounts of the Bank to be audited at least twice a year by two of its members;
(ii) present to the General Meeting a statement of accounts;
(iii) prepare all necessary subsidiary rules for the carrying out of these Bye-laws;
(iv) settle the principles of land valuation;
(v) authorise the issue by the Board of Directors of debenture bonds; and
(vi) decide appeals against the decisions of the Board of Directors.

40. Without prejudice to the powers which may be vested in him by the law for the time being in force, the Director of Land Mortgage Bank will have power—

(*a*) to require the summoning of a General Meeting;

(*b*) to be present at the proceedings of the General Meeting as well as at the meetings of the Board of Directors and the Board of Supervision;

(*c*) to inspect the books and cash balance of the Bank at any time; and

(*d*) to summon any member or office bearer of the Bank or other person for the purpose of an enquiry into the affairs of the Bank. For this purpose, as well as for the settlement of disputes, he will act as a Court.

41. The previous sanction of Government will be necessary for:—

(i) the issue of debentures;

(ii) the conversion of one class of debentures into another class bearing a different rate of interest; or

(iii) for any other matters which the Government may desire that their previous sanction should be obtained.

42. The accounts of the Bank shall be audited at least once a year by a duly certified auditor or by an officer deputed by the Mysore Government.

43. All other matters concerning the organisation and the working of the Bank as well as the remuneration, if any, which the Board of Directors, the Board of Supervision, the local agents and the auditors are to receive shall be fixed by subsidiary instructions or regulations to be framed by the Board of Supervision and approved by Government.

44. a Reserve Fund shall be formed by the Bank. To this shall be carried—

(i) a sum not less than ten per cent of the net profits of every year;

(ii) the interest on the capital of this fund;

(iii) amounts not claimed;

(iv) produce of drawn and expired mortgage bonds; and

(v) any other funds which may be credited to the reserve fund by the general body of members.

R. RANGA RAO,
General Secretary to Government.